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# JAPAN'S RESPONSE TO THE LATIN AMERICAN DEBT CRISIS

Summary

Recognizing the threat that the enormous debts of Latin American nations pose to the international economic order, Japan has initiated a series of programs that are designed to alleviate the strain on both debtors and creditors. For debtors, Tokyo has announced a $30 billion fund to recycle part of its current account surplus to the developing world. For creditors, the Finance Ministry has developed a scheme to minimize the burden that non-performing loans impose on Japanese banks. Given the complex nature of the debt crisis, it appears likely that in the future Japan will play a more active -- and perhaps leading -- role in developing ways to respond effectively to the problem.

## Introduction

The fifth "anniversary" of the Latin American debt crisis will occur this year, marking Mexico's August 1982 announcement that it did not have adequate foreign exchange reserves to meet its debt obligations. Since then the debt situation has captured international attention and sparked intense controversies over ways to facilitate the repayment of staggering interest obligations to banks in the United States, Europe and Japan. The tricky part, of course, involves doing this without threatening the development goals of the debtors. Given the present situation in Latin America, meeting even the interest on outstanding loans is a strain on foreign exchange reserves, making creditors uneasily aware that the possibility of default continues to hover in the background (see Table 1).

Table 1: External Debt of Selected Latin American Countries, Yearend 1985

(in billions of dollars)

| | External Debt | Banks | Ratio |
|---|---|---|---|
| Brazil | $107.3 | $90.3 | 84.2% |
| Mexico | 99.0 | 88.2 | 89.1 |
| Argentina | 50.8 | 44.1 | 86.8 |
| Venezuela | 33.6 | 33.4 | 99.5 |
| Peru | 13.4 | 8.1 | 60.7 |
| Ecuador | 8.5 | 6.3 | 73.8 |

Source: Ministry of International Trade and Industry, White Paper on International Trade, 1986.

In October 1985 Treasury Secretary James Baker announced a new strategy for dealing with the debt problem. Unlike previous initiatives -- most of which emphasized austerity -- the Baker Plan was designed to encourage economic free-market growth strategies that would allow debtors to fully service their obligations. The plan called for $9 billion in additional lending from the multilateral development banks and $20 billion from private banks over a three-year period in exchange for the implementation of economic adjustment measures.

The Baker strategy was embraced by the major creditor nations and was reaffirmed at the Venice economic summit last June. Within the United States, however, there are some policymakers who question its wisdom and plausibility. These opinionmakers -- most notably Sen. Bill Bradley (D, N.J.) -- maintain that it is naive to expect full repayment of the outstanding loans. Indeed, events in the first half of 1987 have prompted others to espouse that view. For example, in February Brazil announced that it was suspending interest payments on $68 billion worth of loans from foreign banks, sending a shiver of apprehension through the financial community. (By June, though, Brazil had indicated its willingness to make the repayments if it received another loan package.) In May Citicorp implicitly acknowledged the possibility of widespread Latin American default by announcing that it would transfer an extra $3 billion to its loan loss reserves; several other U.S. banks quickly followed suit.

Even Secretary Baker has admitted that his plan has not been as successful as originally expected and has urged U.S. banks to propose alternative strategies to deal with the situation. This announcement has been interpreted as a crossroads for the debt situation. In short, while the Baker Plan is still accepted by this country, policymakers are now searching for other solutions that will complement their present efforts.

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Japan's Position in Latin America

In this context eyes are turning toward Japan, which has the second-largest exposure to third world debt after the United States. While it is difficult to know the exact amount of Japanese private loans (since banks are not required to disclose these figures), most estimates put the value at about $30 billion. According to a report by the Wall Street Journal, most of these loans have gone to Mexico (about $13 billion) and Brazil (about $10 billion). The Bank of Tokyo, Ltd. is reportedly the largest Japanese private lender; one estimate puts its exposure at $6.6 billion. Bank of Tokyo officials, however, say that this figure is too high.

The yen's appreciation has brightened the picture somewhat for Japanese banks. Since 80 to 85 percent of their loans to the region are denominated in dollars, the yen book value of the obligations has plummeted by some 50 percent. Although one government official noted that some dollar loans were converted to yen when a portion of the debt was rescheduled in 1985, the rise of the yen has nonetheless produced a windfall for Japanese creditors worried about the viability of their loans.

Beside the obvious financial concerns of Japanese lenders, other factors draw their attention as well. First, development and debt problems in Latin America have already begun to threaten the smooth workings of the international economic system. This has extended to the U.S.-Japan trade relationship. Debtor nations, barely able to obtain enough dollars to meet their interest payments, are hardly in a position to import from the United States. As U.S. sales to the region have plummeted and helped raise this country's trade deficit, Congress has urged Japan to import more from the region in order to provide much-needed foreign currency. Moreover, it is all too clear that this link between debt and trade gives Capitol Hill yet another incentive to enact trade legislation targeted directly at Japan.

Tokyo often gives another reason for its concern. Latin America is home to more than a million people of Japanese ancestry; this fact is mentioned in nearly every government discussion of the region. Officials estimate that approximately 1 million live in Brazil; 40,000 in Paraguay; 20,000 in Peru; and 10,000 in Mexico. For the basic reason of cultural and ethnic affinity, Japan places a special significance on these countries.

Japan's Response to the Debt Crisis: General Policy

Tokyo lists several reasons for the fact that the debt situation in Latin America is so severe. For one thing, these countries adopted import-substitution development stategies that emphasized the creation of a diversified manufacturing base to enable them to become self-sufficient. On the whole, import substitution has been markedly less successful than the export-led growth policies of the newly industrialized countries in Asia and has led to soaring inflation, low savings and investment rates, and substantial capital flight. Add to these problems a failure to establish competitive domestic industries and the result has been economic crisis.

Nor have recent international events improved the situation. As the Ministry of International Trade and Industry remarks, the recent leveling off of U.S. economic growth has forced borrowers to implement austere adjustment

measures. Similarly, the drop in petroleum prices greatly exacerbated the financial problems of oil-producing nations such as Mexico and Venezuela. MITI summed up the situation in the 1986 White Paper on International Trade, noting: "These developments raise fears that foreign debt will be an increasingly serious problem in the year ahead."

Recognizing that the crisis may get worse before it gets better, Tokyo has outlined a general policy toward debt problems. First, the government is prepared to consider deferred loan payments on a case-by-case basis; rescheduling, lowering interest rates and converting loans to another currency are all options in this regard.

Second, the debtor countries are expected to implement structural adjustments including measures to attract foreign investment and liberalize trade. Not surprisingly, the Japanese government suggests that import-substitution policies are not the best way to enhance international economic contacts. MITI also acknowledges that Japan should import more goods from Latin America. For the most part, Tokyo favors a market-oriented strategy, with as much emphasis on Japanese private-sector activity in the region as possible. This, of course, does not preclude government involvement. The Ministry of Finance, for one, points out that Japan has espoused a "multi-faceted endeavor" to reach a solution.

Should Loans Be Fully Repaid?: Baker Vs. Bradley

The Japanese government unconditionally supports the Baker Plan, which MITI commended in the 1986 White Paper on International Trade for "taking a mid- to long-term outlook in suggesting that future efforts to solve the world's debt problems focus on helping debtor countries improve their payment balances as their economies grow." Even in the face of increasing doubts in this country about the Baker Plan, MOF officials say that Tokyo is not reconsidering the proposal since it is the "only feasible and realistic" method for dealing with the crisis.

According to one government official, the only problem with the Baker Plan is that the United States has done very little to implement it. Another government representative disagrees, however, saying that because the issue is so complex, Japan should not expect too much from the United States. Indeed, the problems surrounding any solution to the debt crisis are significant. Most of the creditor nations believe the plan is correct in theory; the problem is translating it into action. The Baker initiative emphasizes continued private lending to Latin America but involves no incentives for participating banks. And while the promise of growth-oriented structural adjustment is intended to encourage loans from banks with a large stake in the region, many are loath to risk throwing good money after bad.

Another approach, this one Sen. Bradley's, argues that it is more realistic -- and ultimately better for the U.S. economy -- to consider some debt forgiveness. According to this plan, development institutions would approve another $3 billion in loans including money for structural adjustment, but no new loans would come from commercial institutions. Then, at an annual summit (to take place during the first three years of the new round of multilateral trade negotiations under the General Agreement on Tariffs and Trade), debtors would be eligible for an interest rate cut of 3 percentage points for one year

on both commercial and official bilateral loans and a 3 percent per year reduction in the principal of those loans. In exchange, recipients would be expected to implement structural adjustment measures. Subsequent debt-relief packages would depend on how successfully the country used the previous year's package. According to Sen. Bradley, enacting some relief will facilitate development as well as allow the use of foreign exchange reserves for imports of U.S. and other foreign goods. This may cause some initial pain in the financial community, the New Jersey Democrat readily acknowledges, but will ultimately be better for the health of the developed and developing countries.

Just as Japanese officials are resoundingly in favor of the Baker Plan, so too are they consistently critical of the Bradley proposal. One called the plan "too drastic" and charged that the senator's proposal favored exporters over private banks. Another said simply, "debt forgiveness does not work." Because Tokyo places so much emphasis on the need for a market-oriented solution to the crisis, it fears that the scheme would dry up all future private lending to the region. Interestingly enough, however, some Japanese bankers accept the argument for a certain amount of debt forgiveness. In short, while the Bradley proposal has by no means gained a consensus within the Japanese banking community, government officials admit that its supporters are influential.

The Mexican Loan Package and the Cayman Islands Initiative

One of the first hints that Japan intended to expand its role in the debt situation came last year when Tokyo agreed to arrange a $1 billion loan to Mexico through the Export-Import Bank of Japan. The loan was to complement a $12 billion multilateral rescue package for Mexico, consisting of $6 billion from commercial institutions and $6 billion from development institutions. The magnitude of the Ex-Im loan -- especially to a country outside of Asia -- was interpreted by many as an indication that Japan was acknowledging its responsibility to do more to respond to third world debt issues.

Tokyo purposely held up its Mexican loan, however, until private creditors (in Japan and other countries) agreed to provide half of the $12 billion package. Given the reluctance of commercial banks to approve any new loans in Latin America, the government searched for an incentive. It was found in Japanese tax laws. Presently, Japanese banks are only permitted to set aside 5 percent of their loans as loan-loss reserves, of which only one-fifth is tax-deductible. Tax laws in Europe, by contrast, are often more generous. The banking community has been pressuring Tokyo to increase the amount of loans that are tax-deductible, but with little success. And although MOF remains opposed to changes in the tax code, it did approve a scheme that accomplishes much the same purpose.

The new initiative took the form of a paper company set up in the Cayman Islands by Japanese banks to buy a portion of their nonperforming loans to Mexico at a discount (see JEI Report No. 11B, March 20, 1987). In this way, the banks are able to write off their losses and thus substantially improve their net worth. As sole shareholders of the factoring company, any loan payments will come back to them in the form of dividends. Conversely, if the loans are not repaid, for accounting purposes the factoring firm rather than the banks will take the losses.

To date 28 banks have signed on, including Dai-Ichi Kangyo Bank, Ltd., Fuji Bank, Ltd., Sumitomo Bank, Ltd., Bank of Tokyo, Ltd. and Industrial Bank of Japan, Ltd. Each has contributed $3,000 in equity, thus raising a total of $84,000 for the company's initial capital base. Although MOF does not contribute financially to the scheme, it has not only approved the venture but has also (according to the Wall Street Journal) offered "guidance" on tax laws and procedures. Officials stress, however, that the initiative is no more than a bookkeeping procedure designed to help Japanese banks respond effectively to the debt situation.

For now, the banks are only authorized to sell Mexican debt to the factoring company. Government representatives hint, though, that the scheme could easily be expanded to include Brazilian and Argentine debt as well. The banks are certainly pleased thus far, but are undoubtedly going to continue to push for a change in the tax laws regulating write-offs for non-performing debts. Their chances of success do not appear bright in the near future. Prospects for expanding loan-loss reserves beyond the ceiling of 5 percent of total loans appear better and discussions in this regard are reportedly already occurring -- although MOF officials are reluctant to commit themselves on this score.

International Responsibilities of a Surplus Nation

At the same time that Tokyo wants to shield its banks from undue financial distress, it is also anxious to display evidence of its commitment to the health of the international economy. Thus, in early 1987 Prime Minister Yasuhiro Nakasone announced a $30 billion initiative to recycle part of Japan's current account surplus (some $86 billion in 1986) to the developing world.

Although many of the details are still being worked out, the rough outline is clear. One-third of the new aid (approximately $10 billion) will consist of subscriptions to multilateral aid institutions, much of which was proposed at last year's meetings of the International Monetary Fund and the World Bank (see JEI Report No. 37B, October 10, 1986). Of this, some $2.6 billion will make up Japan's FY 1988-90 contribution to the International Development Agency, the low-interest arm of the World Bank, which concentrates on the poorest developing countries.

Another $3.6 billion (3 billion in Special Drawing Rights) is slated for the IMF as a special facility for unusually critical situations that require "financial support beyond the usual recourse," while $2 billion -- a $200 million grant and $1.8 billion to be raised in the Tokyo capital market -- will go to a special World Bank fund. Most of the remainder of this part of the package consists of $1.3 billion in funds for the Asian Development Foundation, a window of the Asian Development Bank.

The second part of the package is an additional $20 billion designed to recycle money directly to the developing countries. The funds will be disbursed in three ways. First, Tokyo has pledged an additional $8 billion to multilateral lending agencies, including the World Bank, the Inter-American Development Bank, the Asian Development Bank and the African Development Bank. Second, some $9 billion will come from Japan's Overseas Economic Cooperation Fund, the Export-Import Bank of Japan and possibly private banks to co-finance World Bank loans. Projects will be chosen in close consultation with the World

Bank and will follow the strict lending standards of the bank. Finally, $3 billion has been set aside for Ex-Im Bank untied loans. Officials stress that, contrary to some initial U.S. reports, all the loans in the initiative will be untied.

The plan has received a warm welcome in the United States and the developing countries, and has been interpreted as evidence that Japan will use more of its surplus to promote international economic goals. Indeed, Tokyo has been eager to portray the initiative in this way. It is partly due to American enthusiasm that there has been a clamor for more details. Tokyo is not yet ready to elaborate, stressing that the $30 billion plan is a "loose package" and that government officials are still working out the specifics.

A few facts appear clear, however. For example, although some government officials are sympathetic to the idea of making the plan strictly a response to the debt crisis, they recognize that this would identify it as a Latin American fund -- despite the fact that nations in Southeast Asia and Sub-Saharan Africa also have sizable debts. Since Japan has always emphasized its role in Asia, officials are reluctant to exclude the Southeast Asian developing countries from the initiative and have already promised the Association of Southeast Asian Nations that it will receive a share of the $30 billion.

Still, a major purpose of the recycling plan is to display Tokyo's commitment to non-Asian developing countries. Moreover, since officials point out that the initiative is aimed primarily at middle-income developing countries (as opposed to many of the destitute countries in Sub-Saharan Africa), it appears likely that Latin America will receive a large share -- perhaps the majority -- of the recycling funds.

Finance Ministry officials say that much depends on the requests received. Other spokesmen have indicated that first consideration may go to the countries that are judged to have adequate "absorptive capacity." By giving special consideration to countries with promising economies, not only will the funds be efficiently spent but officials also hope that such countries will serve as growth models for other regional debtors. Brazil is the first country that comes to mind in this category. Another factor that may come into play is the extent of Japan's relations with the country in question, including the amount of debt held by Japanese banks, the volume of trade, the amount of private investment and the number of Japanese immigrants residing in the country. Brazil and Mexico are both good candidates in this regard. Conversely, according to one official, since countries such as Venezuela have limited contacts with Japan, they will probably not be as likely to receive funds.

Given the emphasis on the debtor countries' potential for growth and the desirability of private-sector participation, the plan is unquestionably compatible with the Baker initiative. And certainly Japanese officials have no desire to label it otherwise. Some do admit, however, that the proposal contains no direct incentive to encourage increased private-sector lending; rather the initiative only sets "guidelines for private banks." In this regard, it may run up against the same problem as the Baker plan: banks are reluctant to commit more money when they are unsure about the worth of their outstanding loans. Consequently, officials are making no promises -- only that private banks <u>may</u> co-finance some loans with the World Bank. Other than that, the recycling program will depend on government funds and monies raised in Tokyo's capital market.

Debt-Equity Swaps: A Limited Remedy

One response to the debt problem that has received considerable publicity and enthusiasm is swapping debt for equity in a borrower's industry. In short, Japanese investors can buy Latin American debts in a foreign secondary debt market (where questionable loans to the third world are sold at significant discounts). Next, the investors exchange the discounted dollar loans for local currency, often at rates lower than exchanging yen on the foreign exchange market. Finally, the Japanese firm can use the local currency to invest in a project or engage in a joint venture in the debtor country. Normally, before the process is set into motion, a pre-arranged deal outlining each of the steps is made among all involved parties and the debtor government.

The enthusiasm for debt-equity swaps stems from the fact that everyone wins something in these deals. By selling the debt, the banks can take a tax write-off on their losses and improve their books. By puchasing the debt with local currency, the host country no longer has to worry about finding enough foreign exchange to make its payments. And by purchasing the debt at a steep discount, the Japanese investor can undertake the foreign venture at far less cost than otherwise.

According to the Far Eastern Economic Review, the Industrial Bank of Japan is the first Japanese bank to have brokered a debt-equity swap. Under the deal, Nissan Motor Co., Ltd. and other Japanese firms used discounted debt to invest in a joint venture for hotel construction in Mexico. Kawasaki Steel Corp. and Japan Air Lines Co., Ltd. are among other Japanese firms that have been involved in debt-equity exchanges -- although primarily in the Philippines.

Although there is still room for more swaps, the strategy is limited. For one thing, the secondary market for these loans -- some $5 billion in trading volume in 1986 -- is just a drop in the bucket compared to the staggering amount of third world debt. Moreover, Japanese investors will not invest in projects that are unlikely to yield a profit. According to one Japanese official, there are few countries that are economically and politically sound enough to attract private investors in great numbers. He could name only three: Brazil, Mexico and Chile. And even in Mexico, he warned, the threat of nationalization looms large.

Thus, although debt-equity conversions are bound to have a positive effect on the debt situation, no one expects them to be a panacea. Nonetheless, they are welcomed by the Japanese government, especially since they represent a response that reflects the market conditions of the developing countries and the market value of the loans involved. Too, they encourage more private-sector exposure in Latin America, which may stimulate further contacts in the future.

Role of Private Investment and Official Development Assistance

In light of Tokyo's insistence that the best solution to the debt crisis is increased private-sector involvement, it is no surprise that the issue of investment often comes up in government discussions of debt and development. For example, the 1985 White Paper on Economic Cooperation stated that "direct investment is also important [to meet development objectives] and to contribute

to the transfer of technology and know-how to countries that urgently need them. Since this is done without directly involving a debt burden, direct investment should constitute a major part of development funds for developing countries." Officials go on to say that direct investment will facilitate the repayment of foreign debt and that a review of tax incentives and other financial measures to encourage foreign investment should be set in motion.

But private investors continue to shy away from the Latin American countries, citing high inflation rates, political instability and continued economic crises (see Tables 2 and 3). Moreover, although programs exist to insure commitments against non-commercial risks, investors are more interested in putting their funds in the United States or Europe -- or at least in developing countries that are more economically and politically stable, physically closer to Japan and culturally similar: that is, Southeast Asia.

Tokyo admits that private investment in Latin America is unlikely to expand significantly in the near future. Although officials continue to search for ways to encourage private flows abroad, they insist that it is primarily the responsibility of the debtor countries to provide conditions conducive to foreign investment.

Table 2: Japan's Foreign Direct Investment in Latin America by Country, FY 1982-FY 1986

(in millions of dollars)

| | FY 1982 | FY 1983 | FY 1984 | FY 1985 | FY 1986 | Cumulative March 31, 1987 |
|---|---|---|---|---|---|---|
| Panama | $722 | $1,223 | $1,671 | $1,533 | $2,401 | $8,841 |
| Brazil | 322 | 410 | 318 | 314 | 270 | 4,857 |
| Mexico | 143 | 121 | 56 | 101 | 226 | 1,556 |
| Peru | 185 | --- | 6 | 10 | --- | 696 |
| Latin America | 1,503 | 1,878 | 2,290 | 2,616 | 4,737 | 20,373 |
| North America | 2,905 | 2,701 | 3,544 | 5,495 | 10,441 | 37,406 |
| Europe | 876 | 990 | 1,937 | 1,930 | 3,469 | 14,471 |
| Oceania | 421 | 191 | 157 | 525 | 992 | 5,234 |
| Asia | 1,384 | 1,847 | 1,628 | 1,435 | 2,327 | 21,790 |
| Africa | 489 | 364 | 326 | 172 | 309 | 3,678 |
| Middle East | 124 | 175 | 273 | 45 | 44 | 3,016 |
| Total Foreign Direct Investment | 7,703 | 8,145 | 10,155 | 12,217 | 22,320 | 105,970 |

Source: Ministry of Finance

Table 3: Japan's Foreign Direct Investment in Latin America by Sector, March 31, 1987

(in millions of dollars)

| | Cumulative March 31, 1987 |
|---|---|
| Manufacturing Sector | $4,833 |
| Food | 199 |
| Textiles | 419 |
| Wood Products | 197 |
| Chemicals | 559 |
| Metals | 1,687 |
| Nonelectric Machinery | 356 |
| Electric Machinery | 324 |
| Transport Equipment | 982 |
| Other | 110 |
| Nonmanufacturing Sector | 15,474 |
| Agriculture and Forestry | 179 |
| Fisheries | 103 |
| Mining | 1,525 |
| Construction | 200 |
| Trade and Sales | 1,232 |
| Banking, Finance and Insurance | 4,275 |
| Services | 681 |
| Transportation | 6,058 |
| Real Estate | 19 |
| Other | 1,203 |
| Branch Offices | 43 |
| Real Estate Transactions | 23 |
| Total | 20,373 |

Source: Ministry of Finance

Another strategy that the government endorses is the use of official development assistance to promote economic development, thus improving the debtor countries' ability to meet their accumulated obligations. But here, too, problems arise. Roughly 65 to 70 percent of Japan's ODA goes to Asia, and only 10 percent to Latin America. Although Tokyo has plans to diversify the regional distribution of its aid flows, it is difficult in the case of Latin America. Regulations restrict the government's ability to give official yen loans to countries with a per-capita income above a certain level. Moreover, countries that are in arrears in payments are not eligible unless the unpaid debt is rescheduled. Thus, it is not surprising that few ODA loans have been made to the region in recent years (see Table 4). Still, officials recognize the value of official economic assistance in promoting Latin American development and have pledged to use ODA funds to tackle debt and development problems in the region.

Table 4: Japan's Aid to Selected Latin American Countries, 1981-85*

(in millions of dollars)

| | 1981 | 1982 | 1983 | 1984 | 1985 |
|---|---|---|---|---|---|
| Mexico | | | | | |
| Grants | $7.47 | $7.47 | $9.59 | $8.26 | $10.61 |
| Loans | 3.21 | 3.38 | 37.26 | 22.37 | 8.90 |
| Total | 10.68 | 10.85 | 46.85 | 30.62 | 19.51 |
| Argentina | | | | | |
| Grants | 2.56 | 2.85 | 3.93 | 7.11 | 6.66 |
| Loans | 6.12 | 0.63 | 1.68 | 1.56 | 1.78 |
| Total | 8.68 | 3.48 | 5.61 | 8.67 | 8.44 |
| Bolivia | | | | | |
| Grants | 16.46 | 13.19 | 9.47 | 15.36 | 15.03 |
| Loans | 14.74 | 16.63 | 25.23 | 14.27 | 7.58 |
| Total | 31.20 | 29.82 | 34.70 | 29.62 | 22.61 |
| Brazil | | | | | |
| Grants | 16.05 | 14.64 | 14.62 | 15.75 | 15.70 |
| Loans | 15.31 | 35.83 | 12.50 | 19.85 | 24.91 |
| Total | 31.36 | 50.47 | 27.12 | 35.59 | 40.61 |
| Chile | | | | | |
| Grants | 3.21 | 5.90 | 3.39 | 3.57 | 8.98 |
| Loans | -1.35 | -1.53 | 0.10 | -1.90 | -2.25 |
| Total | 1.86 | 4.37 | 4.09 | 1.67 | 6.73 |
| Colombia | | | | | |
| Grants | 3.97 | 2.49 | 3.36 | 6.27 | 5.39 |
| Loans | 8.43 | 4.96 | 11.85 | 18.36 | 8.50 |
| Total | 12.40 | 7.45 | 15.21 | 24.62 | 13.89 |
| Ecuador | | | | | |
| Grants | 1.43 | 4.24 | 3.06 | 1.53 | 2.04 |
| Loans | 0.50 | -0.83 | -0.48 | 0.46 | -0.12 |
| Total | 1.93 | 3.41 | 2.58 | 1.99 | 1.92 |
| Paraguay | | | | | |
| Grants | 20.08 | 12.88 | 10.29 | 14.04 | 16.67 |
| Loans | 3.05 | 17.57 | 11.46 | 8.98 | 2.18 |
| Total | 23.13 | 30.45 | 21.75 | 23.01 | 18.85 |
| Peru | | | | | |
| Grants | 12.60 | 16.29 | 26.78 | 14.77 | 13.25 |
| Loans | 6.19 | -3.35 | 18.30 | 10.08 | 8.20 |
| Total | 18.79 | 12.94 | 45.08 | 24.85 | 21.45 |
| Venezuela | | | | | |
| Grants | 0.91 | 0.92 | 1.39 | 1.06 | 1.22 |
| Loans | 0.13 | 0.00 | -0.15 | -0.15 | -0.15 |
| Total | 1.04 | 0.92 | 1.24 | 0.91 | 1.07 |

*Loans may include other official yen credits.

Source: Ministry of Foreign Affairs.

Cooperation with the United States: A More Independent Role for Japan?

Despite the unilateral initiatives discussed above, the government believes that a multilateral approach is necessary to effectively fight the problem. In keeping with this perspective, Japan is a member of the Paris Club, an informal group of creditors that convenes periodically to renegotiate and reschedule debt. Moreover, Japan participates in global and regional multilateral development banks -- including the Inter-American Development Bank, which it joined as a nonregional member in the mid-1970s. (Private-sector cooperation, too, is beginning to expand. This was demonstrated recently when nine major Japanese banks agreed in principle to help BankAmerica Corp. recover from some $350 million in losses by underwriting $250 million of subordinated capital notes.)

Until a short time ago Tokyo was willing to follow the U.S. lead in tackling debt issues. Gradually, the government has begun to feel that it should work more independently -- as long as its initiatives receive U.S. approval. All indications are that it has begun to do so. In addition to the Cayman Islands factoring company and the recycling fund, Japan has become the first developed country to sign the convention ratifying the Multilateral Investment Guarantee Agency, which will guarantee members' investments in developing countries against non-commercial risks (see JEI Report No. 22B, June 12, 1987). Originally, Tokyo said it would wait until the United States officially adopted the convention.

Japanese officials say that one problem they have with following the U.S. position on debt issues is quite simply that they do not always understand the Washington viewpoint since intra-governmental struggles are often publicized. For example, officials have expressed concern about current attitudes in Congress, especially recent additions to the Senate omnibus trade bill that link U.S. capital subscriptions to multilateral lending agencies with domestic trade concerns.

Will Japan play a more independent role in developing a solution to the international debt crisis? Probably, say government representatives, although they hasten to point out that this is more a "natural course of events" for a surplus country than a specific policy decision. Nor should this be interpreted as having significant political implications for the U.S-Japan relationship. Rather, they say, it is a logical development that reflects the growing international importance of Japan's economy and financial resources. In the best of all possible worlds, of course, it would be the Japanese private sector that would find a relatively smooth, market-oriented solution. Given the obvious reluctance of the private sector to make further commitments, however, the Japanese government may have to embrace an even more active role in finding an answer that is acceptable to debtor and creditor countries alike.

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The views expressed in this report are those of the author and do not necessarily represent those of the Japan Economic Institute.